The Mortgage Insurance Company of Canada

Annual Report 1965

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Montreal, Quebec

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Senior Vice-President
Greenshields Incorporated
Montreal, Quebec

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The Bank of Nova Scotia
Toronto, Ontario

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The Mortgage Insurance Company of Canada
Toronto, Ontario

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Air Canada
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The Bank of Nova Scotia
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EXECUTIVE OFFICERS

Chairman of the Board
F. William Nicks

President and General Manager
Gardner English

Vice-President
C. W. Jameson

Vice-President
Reginald T. Ryan

Secretary-Treasurer
Ronald C. Brown

PRESIDENT'S REPORT

The Mortgage Insurance Company of Canada has just completed its first 18 months' operations and, since private mortgage insurance is a new field in Canada, I shall devote part of this review to the background of the company and a description of the financial service which we perform.

Mortgage credit for home owners in Canada prior to 1964 had been available on terms less favourable than those prevailing in Great Britain and the United States. While National Housing Act loans have provided high ratio financing for those wishing to buy new houses in the low-to-moderate price range, conventional mortgages available on new and used housing were restricted by legislation to $66^2/_3$% of value (more recently 75%). The resultant high equity requirements made home ownership expensive or impossible for many Canadian families. The Mortgage Insurance Company of Canada (MICC) high ratio mortgage plan was designed to extend many of the benefits of the NHA plan to the field of existing housing and to new housing outside the NHA price range.

The MICC plan first introduced in 1964 provided for the insurance of mortgage loans up to $83^1/_3$% of the appraised value of the property for a single premium of 2%. The plan was improved in 1965 when the maximum loan ratio was increased to $87^1/_2$%. The premium may be added to the loan amount, if the borrower wishes, and repaid as part of his regular mortgage payment. The interest rate on these loans is $^1/_8$% to $^1/_4$% above the going interest rate for conventional loans in the community.

Under the plan, a first mortgage is made jointly by an institutional lender and Central Covenants Limited, a separate mortgage investment company. The borrower deals only with the institutional lender, the role of MICC being to provide mortgage insurance coverage, offering substantial protection to the lender in the event of loss on foreclosure of the mortgage. This simple, economical plan has made it possible for home owners to buy existing as well as new properties with an equity payment as low as $12^1/_2$% while avoiding second mortgage financing. Its application to existing properties also allows a home owner to refinance his obligation if he wishes to eliminate a second mortgage or if he wants to use his home as a source of capital for other undertakings. It is not surprising that the MICC insured mortgage plan achieved ready market acceptance. By the end of 1965, approximately 7,000 Canadian families had used the MICC plan.

A further mortgage insurance service was created during the past year. MICC insurance was made available on conventional 75% mortgages for a premium of $1^1/_4$%. Insured mortgages of this type are of particular interest to pension fund investors and $11,000,000 of loans were insured for pension funds in the last half of 1965. It is anticipated that the strong protection of your company's insurance policy, plus the advantages of the MICC underwriting process, will have increasing appeal to pension funds in the future.

MICC insured loans are made available to the public through 31 major mortgage lending institutions which have been designated by the company as Approved Lenders. These lenders comprise a majority of the leading life insurance companies, trust companies and

loan companies in Canada and include, on an agency basis, two chartered banks. With several hundred country-wide branches, the Approved Lenders offer convenient facilities for the mortgage borrower in most Canadian communities. The home owner or buyer enjoys the further advantage of being able to deal with reputable and experienced institutions.

This widespread network of facilities has made the MICC plan available across Canada. Insured loans have been made in all provinces and in the Northwest Territories. As expected, a large proportion of our business has been developed in the larger cities. However, approximately 17% of commitments issued have provided financing for home owners in communities with populations less than 25,000. It is also important to note that the average size of mortgage approved was $14,800 on existing properties and $18,700 on newly-constructed properties. Although MICC loans are available up to $50,000, the average figures mentioned above indicate that the greatest demand is in the range of medium-priced housing.

Operations

Mortgage insurance commitments were issued during the year in the gross amount of $86,000,000. Legal and administrative procedures result in a considerable interval of time between commitment date and date of policy issuance; consequently, mortgage insurance contracts actually written totalled $68,383,000.

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Gross premiums written totalled $1,339,188 for the year. As single premium insurance requires the establishment of proper reserves to assure funds for payment of losses throughout the policy term, gross premiums are credited to an unearned premium reserve and a portion is drawn into current income each year. The reserve practice and formula for determination of annual earned premiums are prescribed by the Superintendent of Insurance. Earned premiums applicable to the year 1965 amounted to $172,526.

Operating net income after all operating expenses and allowance for income taxes was $82,345.

To date the company has paid no claims for loss on insured mortgages. Experience in both government-sponsored and private mortgage insurance programmes in Canada and the U.S. has shown that claims are moderate during the early years of operation. The favourable economic climate and full employment in Canada in 1965 provided low exposure to claims.

The investment portfolio of the company consists principally of bonds and preferred stocks. Distribution of investments by class is shown below as at December 31, 1965:

Government of Canada and Government Guaranteed Bonds	$ 886,000
Provincial and Municipal Bonds	1,506,168
Corporate Bonds	100,000
Guaranteed Investment Certificates	200,000
Preferred Stock	524,032
Other Short Term Investments	200,000
	$3,416,200

Average rate of return on investments for the year, after all investment expenses, was 5.05%.

1/3 new content

Economic conditions

The year 1965 was characterized by vigorous business activity, high levels of employment and the creation of new capital facilities on a greatly expanded scale. Economic achievement of this dimension naturally called for investment capital in large amounts, including borrowed capital by way of bond and mortgage financing at record levels. Home financing was a prominent part of this credit activity and institutional lending was rapidly expanded in the early months of the year.

By mid-year it became apparent that the pace was too rapid and some reduction in lending volume was inevitable. In the summer the serious involvement of two large companies in the financial field further served to arrest the lending pace and credit became increasingly scarce.

Since the operations of The Mortgage Insurance Company of Canada are geared to the tempo of mortgage lending by institutions, the business of your company closely followed the movements of the credit market. New business volume was very buoyant in the first half of the year and then tapered off as a result of the "tight money" situation in the fall months. Notwithstanding the slowdown in the last quarter, the volume of business for the year was satisfactory and demonstrated a Canada-wide acceptance of the MICC plan in its second year.

Outlook

The outlook for 1966 is largely favourable for a continuance of prosperity and profitable business for much of the world. The war threat in the Far East and the difficulties of many nations with balance of payments will pose problems for business and government. Credit will probably be less abundant than the demand for it for a considerable period, perhaps most of 1966. Government and business economists have recently warned of "overheating" arising from maximum use of productive capacity and the labour force. The inflationary effects of these conditions in our economy have been widely recognized.

Despite these problems, the high level of industrial activity and full employment should assure us that Canada can look forward to another year of prosperity and progress. As noted above, the MICC plan has achieved wide acceptance across the country and therefore we anticipate a growth in the company's business commensurate with the supply of and demand for mortgage credit.

Gardner English

President and General Manager

The Mortgage Insurance Company of Canada

BALANCE SHEET

DECEMBER 31, 1965

ASSETS

	1965	1964
Cash	$ 84,151	$ 71,160
Premiums receivable	51,607	31,239
Interest accrued and sundry receivables	40,218	34,440
Investments — at cost (Market value $3,351,500; 1964 — $2,170,360)	3,416,200	2,152,548
Fixed assets — at cost less accumulated depreciation	19,210	21,662
	$3,611,386	$2,311,049

Signed on behalf of the Board:

F. William Nicks, *Director*

Gardner English, *Director*

LIABILITIES

	1965	1964
Accounts payable and accrued liabilities	$ 12,617	$ 15,527
Premium taxes	20,180	7,721
Income taxes	40,952	—
Reserve for unearned premiums	1,514,129	347,467
	$1,587,878	$ 370,715

SHAREHOLDERS' EQUITY

	1965	1964
Capital Stock (Note 2)		
Authorized — 40,000 shares of the par value of $100 each		
Issued and partly paid — 40,000 shares	$4,000,000	$4,000,000
Uncalled subscriptions	3,000,000	3,000,000
Paid-up capital	1,000,000	1,000,000
Contributed Surplus	960,414	960,414
	1,960,414	1,960,414
Retained Earnings	63,094	(20,080)
	2,023,508	1,940,334
	$3,611,386	$2,311,049

The Mortgage Insurance Company of Canada

STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1965

	1965	1964 (Note 1)
Income		
Premiums earned	$172,526	$ 38,607
Application fees	78,963	31,362
Investment income after investment expenses	139,825	68,022
Total income	$391,314	$137,991
Expenses		
Insurance underwriting and policy issuance expenses	104,832	50,101
Premium taxes	26,784	7,721
Other operating expenses	133,053	100,749
Total expenses	$264,669	$158,571
	$126,645	($ 20,580)
Provision for income taxes	$ 44,300	—
Net earnings (loss) for period	$ 82,345	($ 20,580)

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1965

	1965	1964 (Note 1)
Balance — beginning of period	($20,080)	—
Net earnings (loss) for the period	82,345	($20,580)
Profit on the sale of securities	829	500
	$83,174	($20,080)
Balance — end of period	$63,094	($20,080)

NOTES TO FINANCIAL STATEMENTS

1. Comparative figures

The 1964 comparative figures are for the period from December 21, 1963 (date of incorporation) to December 31, 1964. The company commenced business on May 1, 1964.

2. Capital stock

The authorized capital may be increased to 150,000 shares of the par value of $100 each when an additional $25 per share has been paid on the original 40,000 shares.

The company has granted options in respect of up to 2,800 of the shares which may hereafter be authorized at the price of $125 per share.

AUDITORS' REPORT

To the Shareholders:

We have examined the balance sheet of The Mortgage Insurance Company of Canada as at December 31, 1965 and the statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

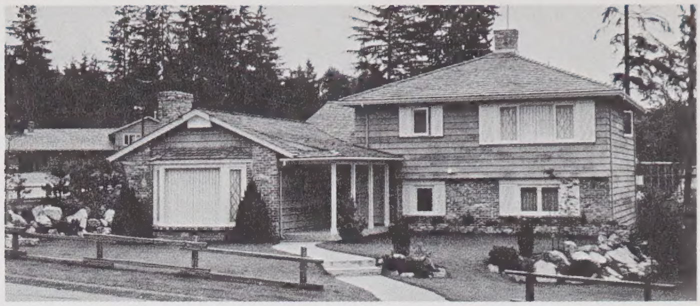
In our opinion, the accompanying balance sheet and statements of earnings and retained earnings, when read in conjunction with the notes thereto, present fairly the financial position of the company as at December 31, 1965 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

February 23, 1966

McDonald, Currie & Co.
Chartered Accountants

TYPICAL HOMES FINANCED BY THE MICC INSURED MORTGAGE PLAN

1 North Vancouver, British Columbia
2 Calgary, Alberta
3 Saskatoon, Saskatchewan
4 London, Ontario
5 Saint John, New Brunswick
6 Halifax, Nova Scotia



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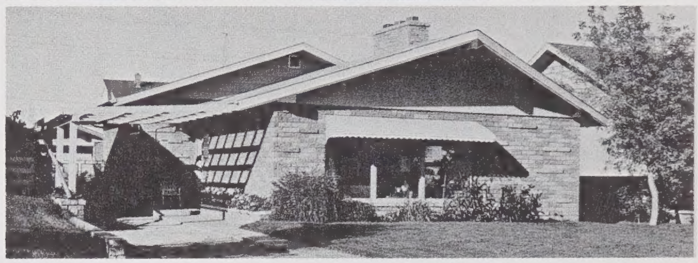

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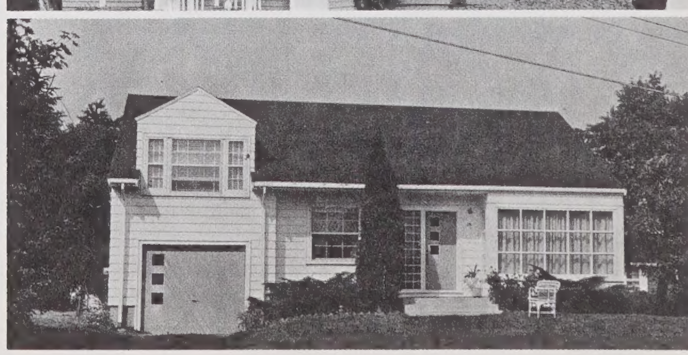

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CENTRAL COVENANTS LIMITED

First mortgage loans insured under the MICC high ratio plan are joint loans made by the Approved Lender and Central Covenants Limited. Normally, the Approved Lender is limited by statute to mortgages not exceeding 75% of value. On MICC loans, the senior portion of the loan (not exceeding 75%) represents the investment of the Approved Lender and the junior portion is held by Central Covenants Limited. The policy of mortgage insurance issued by The Mortgage Insurance Company of Canada, in effect, guarantees the junior holder against loss through foreclosure.

MICC THE MORTGAGE INSURANCE COMPANY OF CANADA

Approved lenders

The Canada Life Assurance Company
The Canada Trust Company —
Huron & Erie Mortgage Corporation
Canadian Premier Life Insurance Company
Confederation Life Association
Crown Life Insurance Company
The Dominion Life Assurance Company
The Eastern Canada Savings and Loan Company
Eastern & Chartered Trust Company
Equitable Life Insurance Company of Canada
The Excelsior Life Insurance Company
Fidelity Life Assurance Company
The Imperial Life Assurance Company of Canada
Industrial Life Insurance Company
Investors Syndicate Limited
The Laurentian Mutual Assurance Company
London Life Insurance Company
Montreal Trust Company
The Mutual Life Assurance Company of Canada
National Trust Company Limited
North American Life Assurance Company
The Northern Life Assurance Company of Canada
Northland Trust Company
Norwich Union Life Assurance Society
Nova Scotia Savings & Loan Company
The Ontario Loan and Debenture Company
Rowcliffe Investments Limited
Standard Life Assurance Company
Sun Life Assurance Company of Canada
The Waterloo Trust and Savings Company
The Western Savings and Loan Association

The Mortgage Insurance Company of Canada

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